

Essential Utilities Inc. (WTRG)

The under-appreciated water growth opportunity; Upgrade to Buy (add to CL)

Buy CL

WTRG 12m Price Target: **\$51.00** Price: **\$41.55** Upside: **22.7%**

We upgrade regulated water/gas utility Essential Utilities (WTRG) to Buy from Neutral and add to the Conviction List. As

one of two large-cap, publicly traded regulated water utilities in the US, we see WTRG as a secular winner to benefit from an estimated \$750 billion of water infrastructure investment needs (per the EPA) in a very fragmented market. This represents at least a \$7bn opportunity – well above its total current water asset base – excluding any market share gains through municipal and other water utility acquisitions.

After YTD underperformance of 10% versus the XLU, we see current prices reflecting a 7x (20%) P/E discount for the company's water utility segment (comprising ~70% of total earnings) versus the only other large-cap water utility American Water (AWK, Buy); we view this as unwarranted while undervaluing WTRG's normalized EPS growth potential similar to AWK's, representing one of the highest in our coverage universe.

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Key Data

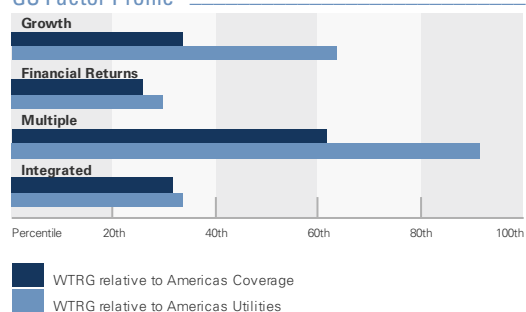
Market cap: \$10.6bn
Enterprise value: \$16.1bn
3m ADTV: \$48.7mn
United States
Americas Utilities
M&A Rank: 3
Americas Conviction List

GS Forecast

	12/19	12/20E	12/21E	12/22E
Revenue (\$ mn) New	889.7	1,571.7	1,995.4	2,113.5
Revenue (\$ mn) Old	889.7	1,571.7	2,032.7	2,165.6
EBITDA (\$ mn)	521.4	777.5	1,047.8	1,122.3
EBIT (\$ mn)	360.8	525.4	755.5	800.4
EPS (\$) New	1.47	1.55	1.66	1.80
EPS (\$) Old	1.47	1.55	1.65	1.80
P/E (X)	27.6	26.8	25.0	23.1
Dividend yield (%)	2.2	2.3	2.5	2.7
Net debt/EBITDA (X)	2.3	7.2	6.0	6.1

	6/20	9/20E	12/20E	3/21E
EPS (\$)	0.29	0.22	0.44	0.69

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Buy

Essential Utilities Inc. (WTRG)

Rating since Oct 19, 2020

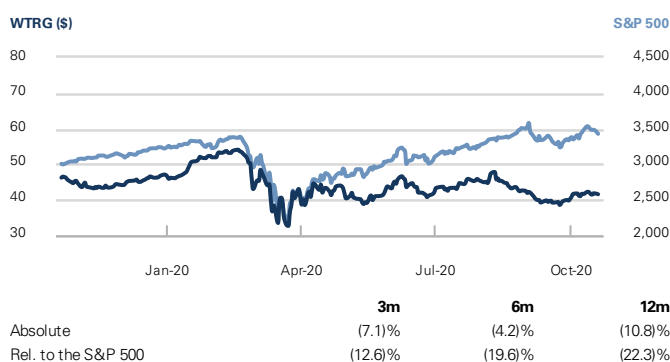
Ratios & Valuation

	12/19	12/20E	12/21E	12/22E
P/E (X)	27.6	26.8	25.0	23.1
EV/EBITDA (X)	19.1	20.5	16.3	15.8
EV/sales (X)	11.2	10.1	8.6	8.4
FCF yield (%)	(2.4)	(1.8)	(1.9)	(0.3)
EV/DACF (X)	19.1	21.0	17.1	16.3
CROCI (%)	6.6	6.9	6.8	6.8
ROE (%)	10.8	9.2	8.8	9.0
Net debt/EBITDA (X)	2.3	7.2	6.0	6.1
Net debt/equity (%)	31.1	118.9	121.6	128.4
Interest cover (X)	—	2.6	3.0	2.9
Inventory days	NM	32.2	25.3	25.3
Receivable days	42.8	30.3	28.0	26.4
Days payable outstanding	NM	156.0	138.3	138.3

Growth & Margins (%)

	12/19	12/20E	12/21E	12/22E
Total revenue growth	6.2	76.7	27.0	5.9
EBITDA growth	23.0	49.1	34.8	7.1
EPS growth	4.2	5.4	7.5	7.9
DPS growth	7.0	7.0	7.0	7.0
Gross margin	100.0	85.2	83.6	84.5
EBIT margin	40.6	33.4	37.9	37.9

Price Performance



Source: FactSet. Price as of 19 Oct 2020 close.

Income Statement (\$ mn)

	12/19	12/20E	12/21E	12/22E
Total revenue	889.7	1,571.7	1,995.4	2,113.5
Cost of goods sold	0.0	(232.9)	(327.5)	(327.5)
SG&A	(391.1)	(600.5)	(659.3)	(699.7)
R&D	—	—	—	—
Other operating inc./exp.)	22.7	39.3	39.2	35.9
EBITDA	521.4	777.5	1,047.8	1,122.3
Depreciation & amortization	(160.6)	(252.1)	(292.3)	(321.9)
EBIT	360.8	525.4	755.5	800.4
Net interest inc./exp.)	(125.3)	(201.5)	(249.6)	(274.7)
Income/(loss) from associates	—	—	—	—
Pre-tax profit	327.9	424.5	505.9	525.7
Provision for taxes	(10.5)	(30.1)	(71.2)	(56.5)
Minority interest	—	—	—	—
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	317.4	394.4	434.7	469.1
Net inc. (post-exceptionals)	317.4	394.4	434.7	469.1
EPS (basic, pre-exception) (\$)	1.47	1.58	1.67	1.80
EPS (diluted, pre-exception) (\$)	1.47	1.55	1.66	1.80
EPS (ex-ESO exp., dil.) (\$)	—	—	—	—
DPS (\$)	0.91	0.97	1.04	1.11
Div. payout ratio (%)	61.6	61.4	62.3	61.8
Wtd avg shares out. (basic) (mn)	215.6	249.7	260.9	260.9
Wtd avg shares out. (diluted) (mn)	215.9	254.6	261.1	261.1

Balance Sheet (\$ mn)

	12/19	12/20E	12/21E	12/22E
Cash & cash equivalents	1,868.4	110.7	43.4	46.0
Accounts receivable	107.6	152.9	152.9	152.9
Inventory	18.4	22.7	22.7	22.7
Other current assets	18.3	129.7	129.7	129.7
Total current assets	2,012.7	416.0	348.6	351.2
Net PP&E	6,345.8	9,389.8	10,625.6	11,427.3
Net intangibles	63.8	2,342.4	2,342.4	2,342.4
Total investments	6.0	5.9	5.9	5.9
Other long-term assets	933.7	1,316.9	1,316.9	1,316.9
Total assets	9,362.0	13,470.9	14,639.4	15,443.7
Accounts payable	74.9	124.1	124.1	124.1
Short-term debt	130.8	122.4	147.4	177.4
Current lease liabilities	—	—	—	—
Other current liabilities	113.3	201.7	201.7	201.7
Total current liabilities	319.0	448.2	473.2	503.2
Long-term debt	2,943.3	5,548.1	6,160.0	6,710.0
Non-current lease liabilities	—	—	—	—
Other long-term liabilities	2,218.8	2,799.5	2,856.5	2,901.7
Total long-term liabilities	5,162.2	8,347.6	9,016.5	9,611.8
Total liabilities	5,481.1	8,795.8	9,489.7	10,114.9
Preferred shares	—	—	—	—
Total common equity	3,880.9	4,675.2	5,149.7	5,328.8
Minority interest	—	—	—	—
Total liabilities & equity	9,362.0	13,470.9	14,639.4	15,443.7
BVPS (\$)	18.00	18.73	19.74	20.43

Cash Flow (\$ mn)

	12/19	12/20E	12/21E	12/22E
Net income	224.5	293.6	434.7	469.1
D&A add-back	156.5	252.1	292.3	321.9
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	(62.3)	6.3	—	—
Others	19.3	25.7	57.0	45.2
Cash flow from operations	338.0	577.8	784.0	836.3
Capital expenditures	(550.3)	(768.1)	(992.4)	(864.4)
Acquisitions	(59.7)	(3,466.8)	(535.7)	(259.2)
Divestitures	—	—	—	—
Others	5.4	0.0	—	—
Cash flow from investing	(604.6)	(4,234.9)	(1,528.2)	(1,123.7)
Dividends paid	(188.5)	(237.2)	(271.0)	(290.0)
Share issuance/(repurchase)	1,947.6	734.1	310.9	—
Inc/(dec) in debt	371.1	1,390.4	636.9	580.0
Others	1.2	11.6	—	—
Cash flow from financing	2,131.4	1,899.0	676.8	290.0
Total cash flow	1,864.8	(1,758.1)	(67.3)	2.6
Free cash flow	(212.3)	(190.3)	(208.4)	(28.2)
Free cash flow per share (basic) (\$)	(0.98)	(0.76)	(0.80)	(0.11)

Source: Company data, Goldman Sachs Research estimates.

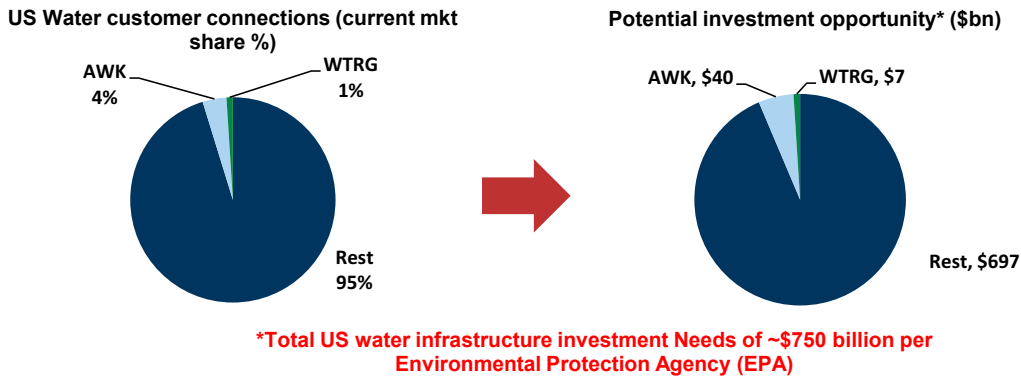
PM Summary

We upgrade regulated water/gas utility Essential Utilities (WTRG) to Buy from Neutral and add to the Conviction List given the following key points:

1. **We see WTRG as a secular winner to benefit from the EPA's estimated \$750 billion of water infrastructure investment needs in a very fragmented market.** With the estimates from the Environmental Protection Agency (EPA), and based on WTRG's current 1% market share of US customer connections, this implies at least a \$7bn investment opportunity, translating into 15 years of 6-7% organic earnings growth, or ~8% including municipal acquisitions.
2. **WTRG's recent acquisition of PA-based gas utility diluted its pure-play water profile but supports robust growth through de-carbonization.** We view this acquisition as a one-off investment in gas – from a recent conversation with management – given its geographic proximity to water headquarters, along with a robust growth opportunity via aging pipe replacement investments that should reduce 119k tons of CO2 over the next 15 years, equivalent to emissions from 25k cars or 13k homes.
3. **WTRG should benefit from a scarcity premium** as one of two large-cap, publicly traded water utilities in the US that comprise 80% of the sector's total market capitalization, as well as a **renewed ESG focus** given water utilities still comprise 70% of total earnings and management's focus on increasing the exposure.
4. **We view WTRG's multiple compression versus water utilities as overdone**, with current prices reflecting a 7x (20%) discount for the company's water utility segment versus the only other large-cap water utility American Water (AWK, Buy), which we view as unwarranted (Exhibit 4) given comparable long-term growth potential (Exhibit 5). From another angle, we see the market valuing WTRG as a 60% gas utility despite its 70% water earnings composition. Given management's strategy to further increase its water utility exposure over time, we believe WTRG deserves a premium valuation to reflect its high growth, largely ESG-friendly profile.

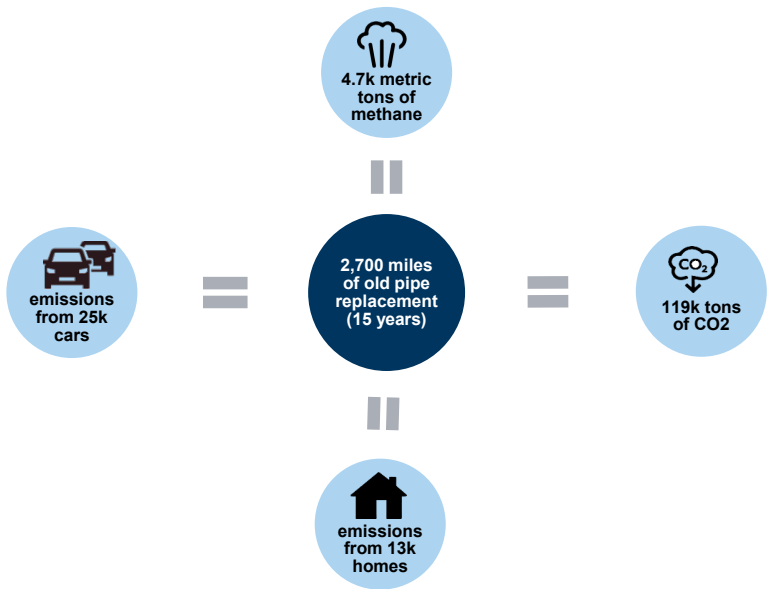
Our 12-month price target \$51 (from \$45 prior) reflects a 24% total return versus 13% for Regulated Utilities, with our estimates reflecting a robust 7% EPS/DPS CAGR from 2019A-2022E versus a 5% average for Regulated Utilities.

Exhibit 1: With an estimated \$750 billion in US water investment needed, WTRG could see at least a \$7bn opportunity at current market share, well above its total current water asset base...
US water investment needs, potential opportunity for WTRG/AWK



Source: Company data, Goldman Sachs Global Investment Research, Environmental Protection Agency

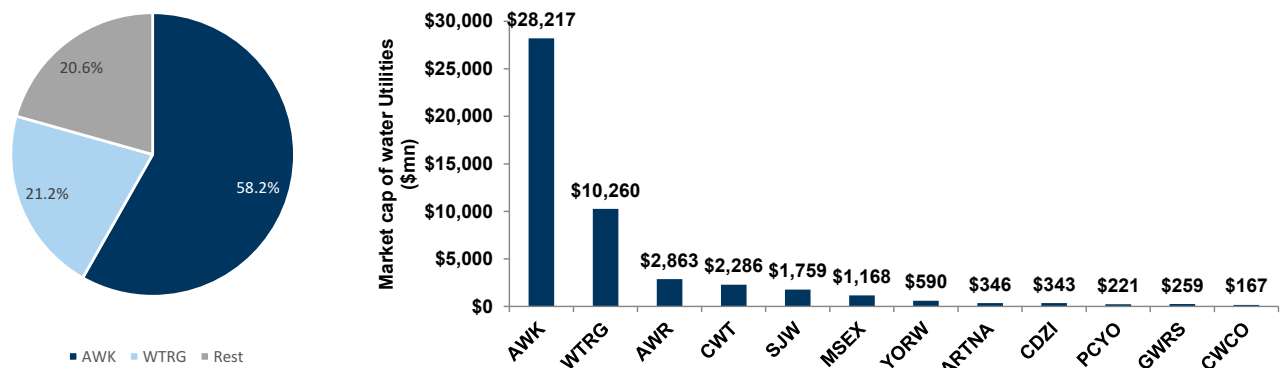
Exhibit 2: ...along with aging gas infrastructure replacement that supports de-carbonization
Potential emission reductions from aging gas pipe replacement



Old pipe replacement refers to bare steel and cast iron pipes

Source: Company data, Goldman Sachs Global Investment Research

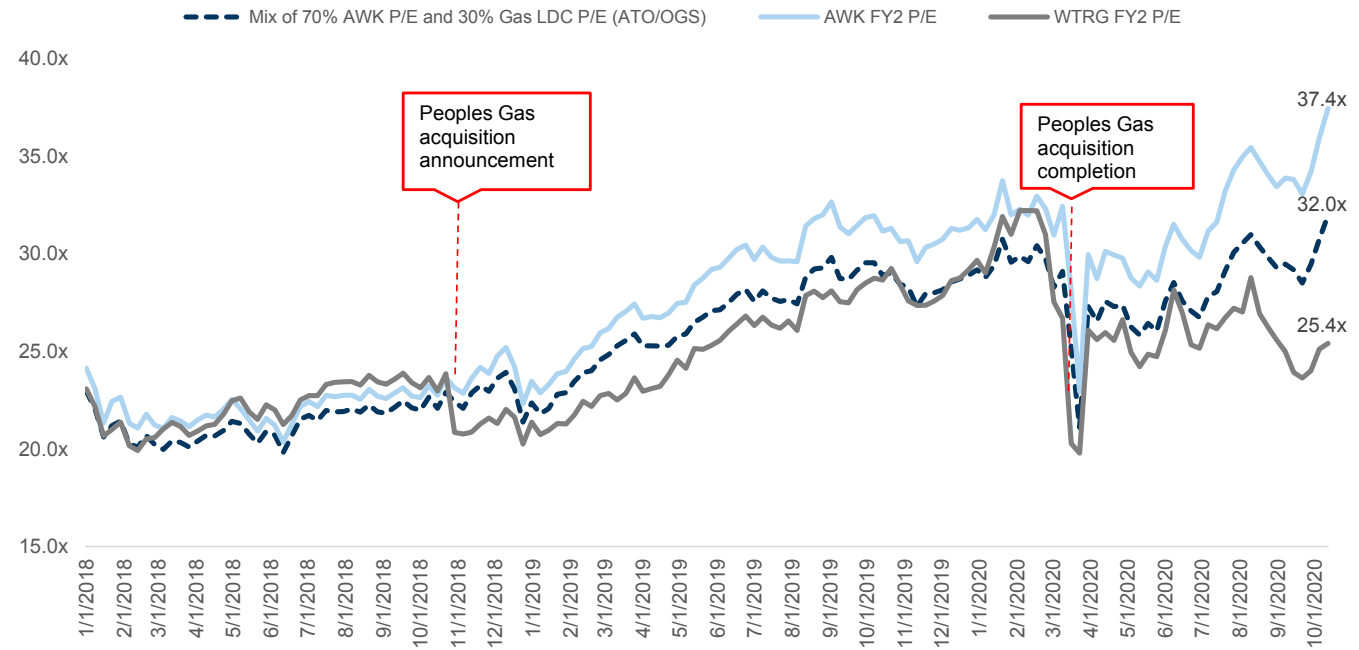
Exhibit 3: WTRG represents one of only two large-cap, publicly traded water utilities in the US, which should support a scarcity premium
Investor-owned water utilities by market cap and by % of total



as of 10/16/20

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 4: We view WTRG’s meaningful relative P/E discount as unwarranted based on its 70%/30% water/gas profile...
FY2 P/E for AWK, WTRG, and an illustrative performance of a 70%/30% water/gas utility

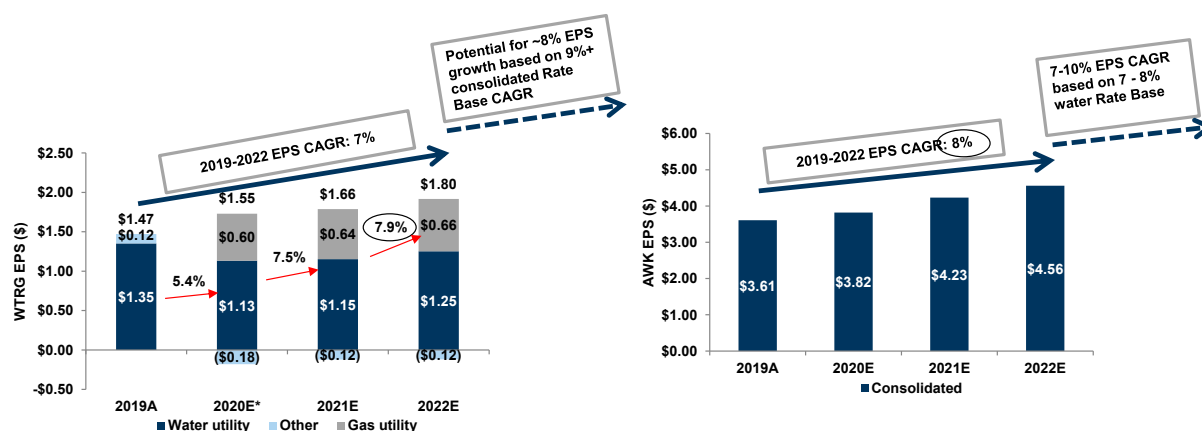


ATO/OGS chosen as illustrative gas utility comps based on company profile, including their status as the two largest gas LDCs by market cap

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 5: ...given we see WTRG's normalized EPS growth potential relatively in-line with that for AWK

WTRG/AWK EPS CAGR, 2019A-2022E; longer-term EPS/rate base growth potential



*Represents AWK's guidance through 2024, with another 1-2% EPS growth contribution expected from its market-based segment. WTRG rate base growth CAGR based on GS estimates.

Source: Company data, Goldman Sachs Global Investment Research

Thesis #1: Material investment needs for US water infrastructure provide secular growth opportunity for WTRG

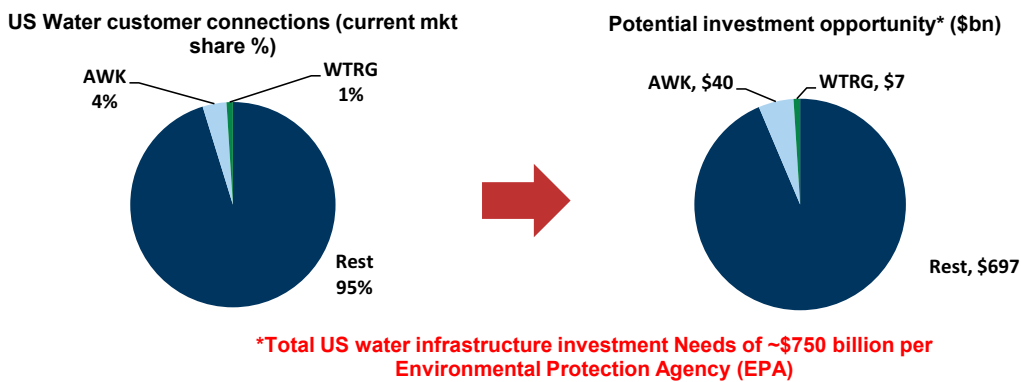
The \$750 billion water proposition. Aging infrastructure and increased regulation in the sector are primary drivers for the need to modernize the country's water and wastewater infrastructure related to water quality and the management of water and wastewater residual discharges. Because pipe assets last a long time, water systems that were built in the latter part of the 19th century and throughout much of the 20th century have not, for the most part, experienced the need for pipe replacement on a large scale. To put this aging infrastructure into context, the Environmental Protection Agency (EPA) estimates almost \$750 billion of investment needed to upgrade the country's water systems, both public and private, to meet environmental standards. Based on WTRG's current 1% market share of US customer connections, this implies at least a \$7bn investment opportunity, more than the company's current ~\$5bn water rate base, supporting visibility to grow rate base at the current 6-7% rate for almost the next 15 years (excluding municipal acquisitions).

The water utility sector is highly fragmented... Of the 50,000/15,000 water/wastewater systems nationwide, only 16%/2% are run by investor-owned utilities (IOUs) and privately held water utilities, making the water industry the most fragmented of the major utility industries (electric, natural gas, water/wastewater). With local municipalities owning and operating the majority of the community water systems, many face challenges associated with their aging, deteriorating water and wastewater assets, do not have the expertise or technical capabilities to continue to comply with ever-increasing environmental regulations or simply want to focus on other community priorities.

...and Fair Market Value (FMV) legislation offers acquisition opportunities for

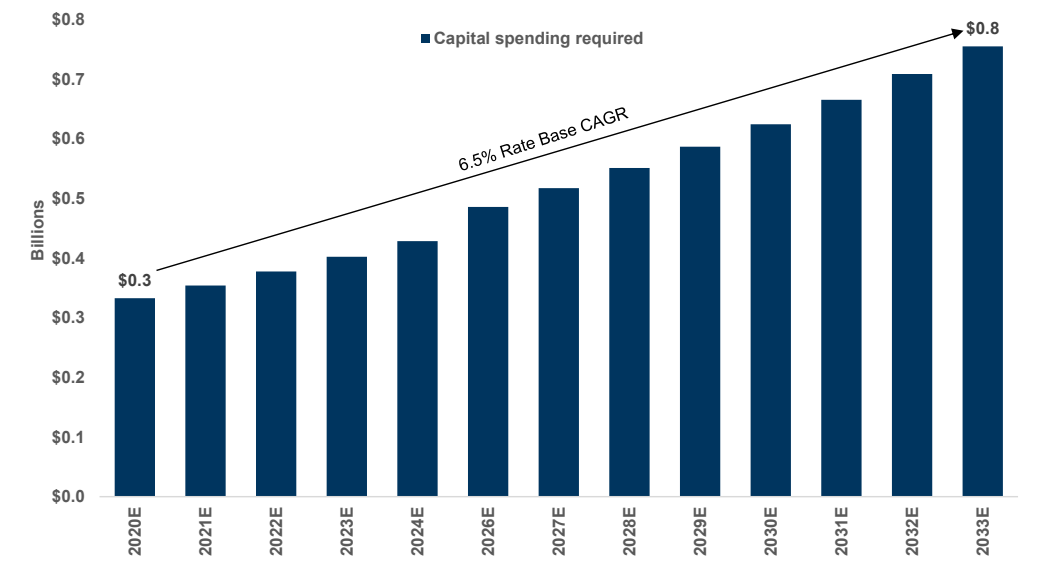
WTRG. The sector has been ripe for consolidation for decades and the largest water utilities have recently altered their strategic growth efforts to focus on buying mid-sized municipal water and wastewater systems fueled by fair market value (or FMV); legislation allows the water utilities to include into rate base the fair market value of the acquired municipal water assets instead of the depreciated original cost of water/wastewater assets. FMV is on the books in all of WTRG’s 8 operating jurisdictions, which should allow WTRG to aggressively increase its water utility footprint, per the company’s current opportunity set that could increase its customers served by 30% if fully successful. For illustrative purposes, a 1% increase in WTRG’s market share by people served could add ~100% of WTRG’s 2019A water utility rate base (Exhibit 10), all else equal.

Exhibit 6: We see meaningful water infrastructure replacement opportunities for WTRG that near its current market cap...
US water investment needs, potential opportunity for WTRG/AWK



Source: Company data, Goldman Sachs Global Investment Research, Environmental Protection Agency

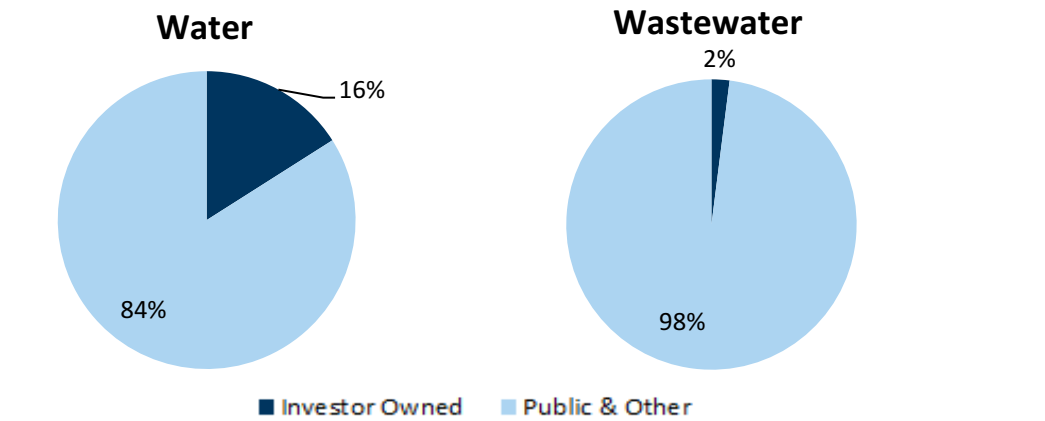
Exhibit 7: ...which could allow WTRG to grow its water rate base at the current 6-7% rate for nearly 15 years (excluding municipal acquisitions that could add an incremental 1-2% growth)
Number of years of 6.5% rate base growth achievable with \$7bn of capital spending



Excludes potential rate base additions from municipal system acquisitions

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: ...along with consolidation opportunities given IOUs and privately held water utilities operate only a small portion of the US water/wastewater systems
Water Industry- Investor Owned vs Public & Other market share, as of 2019



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: FMV legislation provides further impetus for consolidation, with all 8 of WTRG’s water utility states passing the law

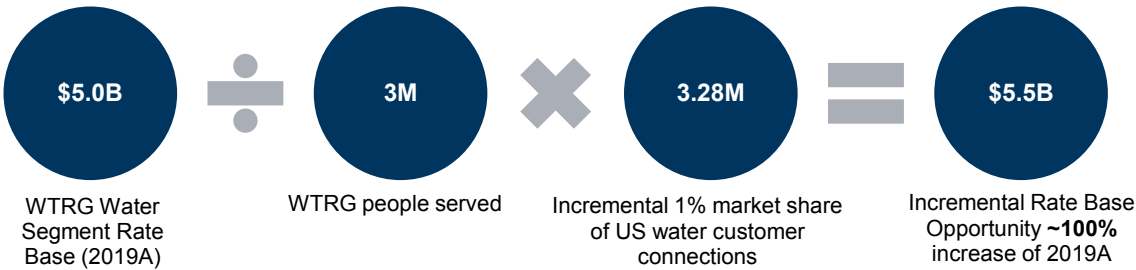
States with Fair Market Value Legislation for Water Utilities, WTRG states of operations



Source: Company presentation

Exhibit 10: For illustrative purposes, a 1% increase in WTRG’s market share by people served could add ~100% of 2019A rate base, all else equal.

Illustrative calculation of incremental rate base from a 1% increase in WTRG’s water market share



Source: Company data, AWWA, Goldman Sachs Global Investment Research

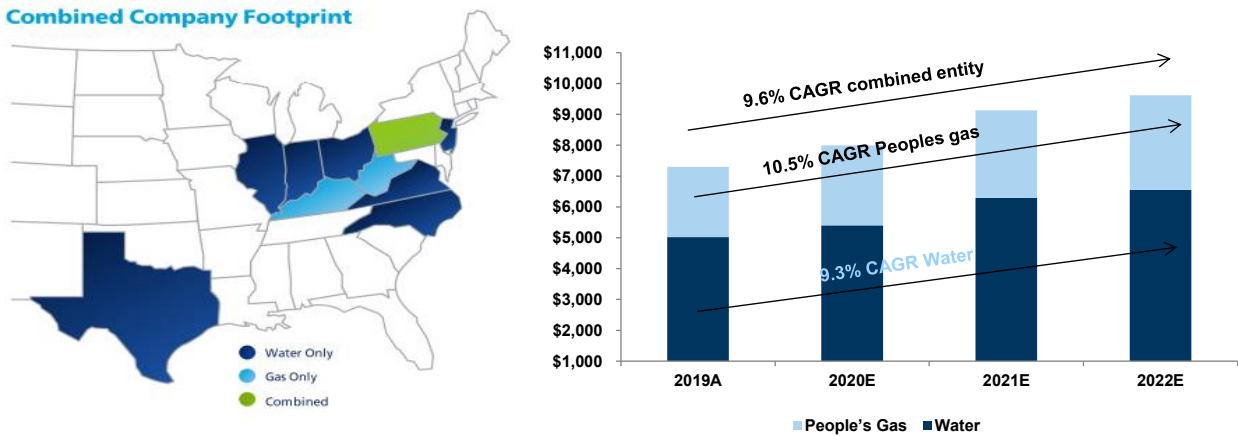
Thesis #2: Gas utility infrastructure investments supports robust growth through de-carbonization

We view the recent Peoples Gas acquisition as a one-off investment into gas utilities. WTRG’s October 2018 decision to acquire privately held PA-based gas utility Peoples Gas, and the March 2020 completion, created a new asset mix for the company that now comprises 70%/30% water/gas utility by rate base and earnings. While this diluted the company’s pure-play water profile supported by ESG-focused investors, in our view, we believe the investment did offer geographic synergy opportunities given WTRG’s PA-based headquarters, while adding an under-invested gas system with robust growth opportunities. We note WTRG does not intend to grow its gas utility footprint through other acquisitions, per our recent conversation with management.

Peoples Gas offers robust growth through aging pipe replacement... We see ~10% rate base growth at Peoples Gas from 2019A-2022E primarily driven by long-term visibility of pipeline replacement projects. We note that Peoples has identified more than 2,700 miles of bare steel and cast iron pipe to be replaced under its Long-term Infrastructure Improvement Plan (LTIIP) by 2034 in its PA service territory, which at ~180-200 miles/year of pipe replacement, implies more than 15 years of increased capital spending to help support visibility of 9% rate base CAGR beyond 2022. We note this growth does not depend on new gas customer connections.

...while achieving de-carbonization. In addition to reliability and safety benefits from aging infrastructure replacement, we highlight that these investments also reduce meaningful methane emissions in the process. Per the company’s data, the ~200 miles per year of pipe replacement reduces 9,000 tons of CO2, equivalent to emissions from 1,900 cars or 1,000 homes. Based on the 2,700 miles of identified cast iron/bare steel in the Peoples Gas system, this would equate to 25k cars or 13k homes.

Exhibit 11: We view WTRG’s acquisition of Peoples Gas as a one-off gas investment that offers geographic synergies and robust growth...
WTRG operational footprint; rate base (\$mn) 2019A-2022E

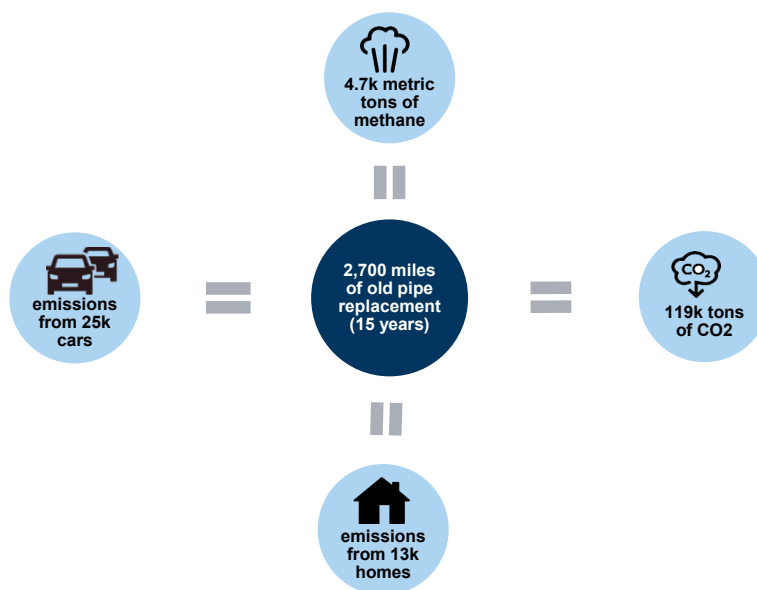


Water rate base growth includes municipal acquisitions

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 12: ..with aging gas infrastructure replacement that supports de-carbonization

Potential emission reductions from aging gas pipe replacement



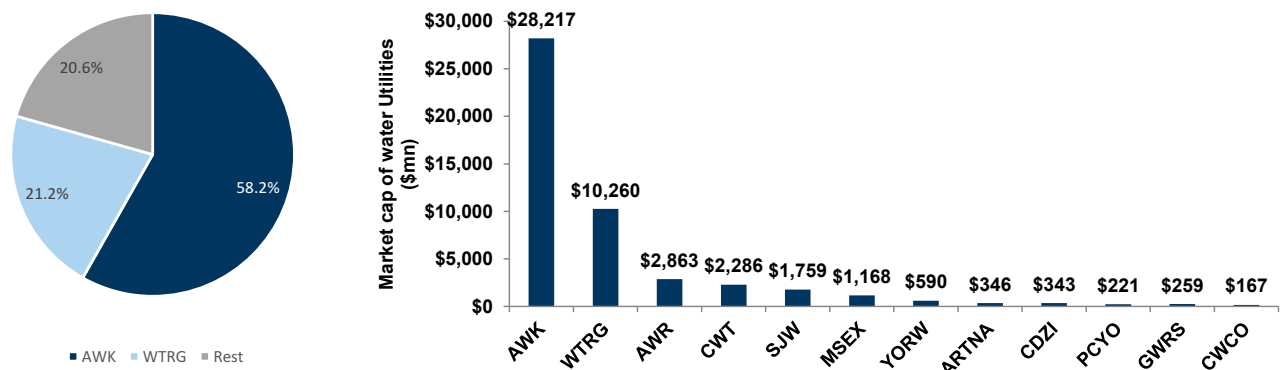
Old pipe replacement refers to bare steel and cast iron pipes

Source: Company data, Goldman Sachs Global Investment Research

Thesis #3: WTRG should benefit from a scarcity premium, renewed ESG focus

WTRG is one of only two large-cap, publicly traded water utility in the US. Given the very light trading volumes for the majority of the water IOUs, we believe investors have limited options to invest in water utilities, which should benefit WTRG longer-term. In addition, while the company's recent acquisition of Peoples Gas diluted its status as a pure-play water utility, we see WTRG's 70% earnings mix to water utilities and management's strategy to grow the exposure over time should regain the attention of more ESG-focused investors, given their large overweight position to Water Utilities including WTRG per the recent data and [publication](#) from our GS SUSTAIN team ([Exhibit 14](#), [Exhibit 16](#)).

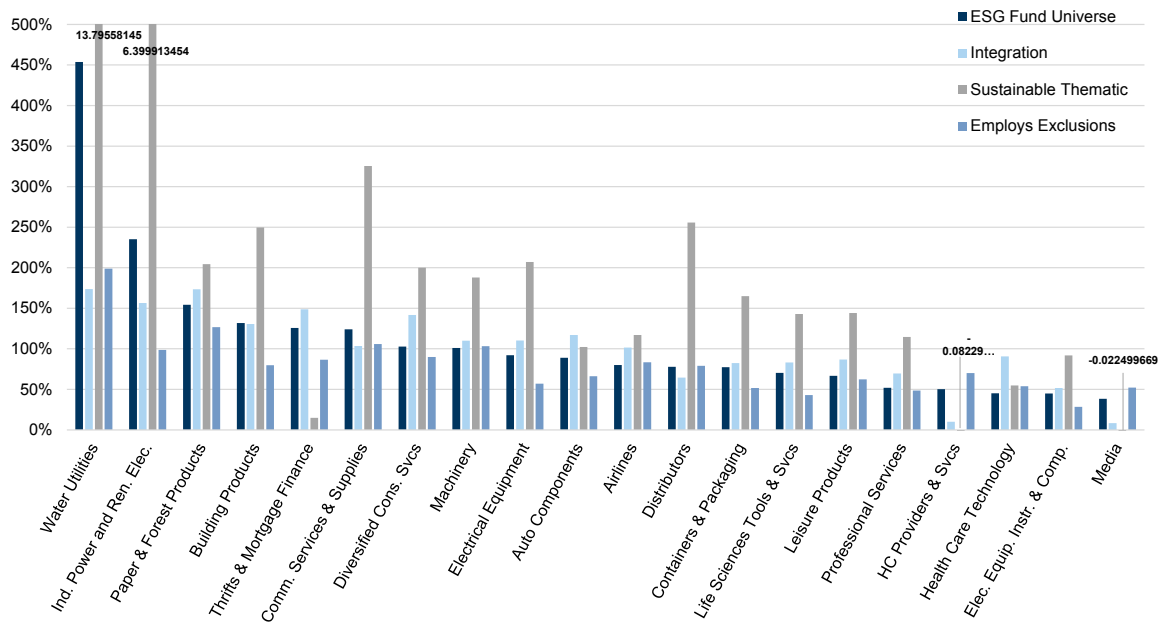
Exhibit 13: WTRG and AWK comprise around 80% of total water IOUs in the US
Investor-owned water utilities by market cap and by % of total



as of 10/16/20

Source: FactSet, Goldman Sachs Global Investment Research

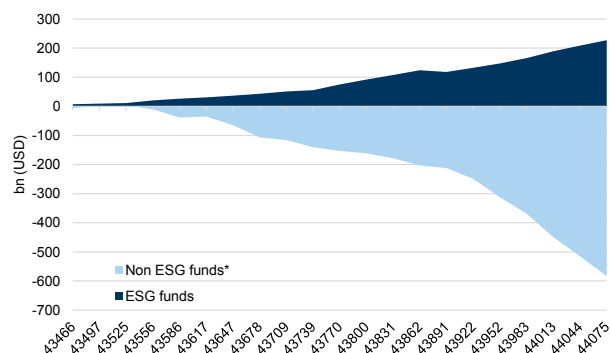
Exhibit 14: Water Utilities are the most overweighted industry by ESG owners
20 most overweighted industries (GICS 3) by ESG-linked equity funds



Source: Morningstar, Thomson Reuters, Goldman Sachs Global Investment Research, GS SUSTAIN

Exhibit 15: ESG fund flows have stood in stark contrast to non-ESG counterparts

Cumulative monthly fund flows for ESG and non-ESG equity funds (1/2019-9/2020)



Source: Morningstar, Goldman Sachs Global Investment Research, GS SUSTAIN

Exhibit 16: WTRG still ranks as one of the most overweight US companies by ESG funds

Top 10 most relatively overweighted US companies by ESG funds (August 2020)

Company	Sector
1 First Solar Inc	Info Tech
2 Xylem Inc	Industrials
3 Tetra Tech Inc	Industrials
4 American Water Works	Utilities
5 Sunrun Inc	Industrials
6 Essential Utilities Inc	Utilities
7 IDEX Corp	Industrials
8 Trimble Inc	Info Tech
9 PTC Inc	Info Tech
10 Nuance Communications	Info Tech

Source: Morningstar, Thomson Reuters, Goldman Sachs Global Investment Research, GS SUSTAIN

Thesis #4: WTRG's valuation under-appreciates secular water growth outlook

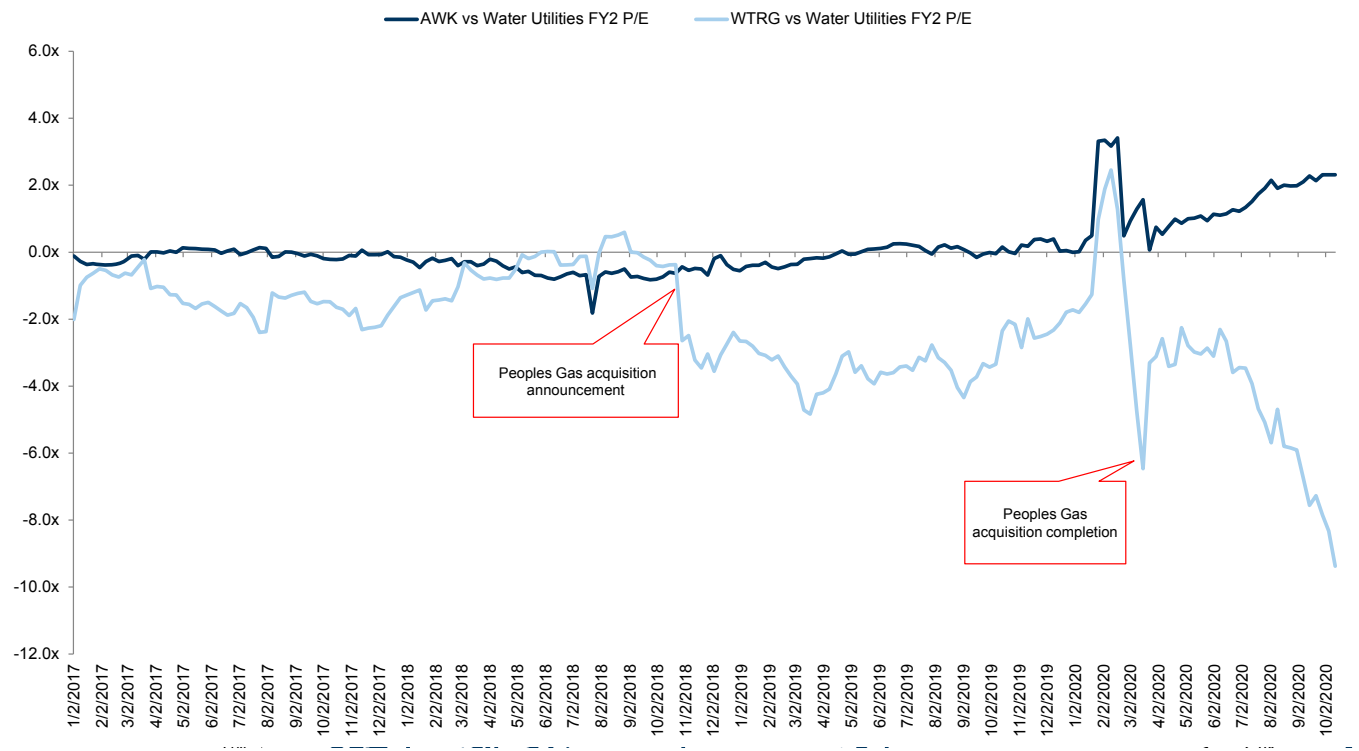
We view WTRG's multiple compression versus water utilities as overdone, despite its acquisition of privately held PA gas utility Peoples Gas in early 2020 (30% of consolidated earnings) that removed its pure-play water profile and contributed to the underperformance, in our view. Per [Exhibit 17](#), the stock started experiencing P/E multiple compression in October 2018 with the acquisition announcement, with continued pressure following its deal completion in March 2020. The valuation spread versus the other large-cap water utility – American Water (AWK, Buy) – now stands at ~12x P/E on 2021E, versus relatively in-line as of the Peoples Gas acquisition announcement.

We see WTRG's normalized LT EPS growth rate as relatively in-line with that for AWK at around 8% – representing one of the highest growth rates in our coverage universe – given the potential for a 9%+ combined rate base CAGR assuming continued robust municipal acquisitions. We note our estimated 7% EPS CAGR through 2022 reflects certain items including: 1) earnings and financing lag associated with the proposed DELCORA acquisition and timing of inclusion into rate base (1Q2021 equity issuance assumed, rate base inclusion in 2022), 2) the expiration of tax-advantaged rate-making - repairs tax - at the PA water segment and a return to normal rate-making, and 3) the recent election of repairs tax for Peoples Gas and timing of associated earnings benefit.

While we continue to view a discount versus AWK as warranted for WTRG, given our sum-of-the-parts (SOTP) valuation approach for the water/gas businesses versus AWK's pure-play water profile, we see current multiples meaningfully under-valuing the water business ([Exhibit 18](#)), based on WTRG's P/E discount versus an illustrative

70%/30% water/gas utility mix. In addition, we view management’s strategy to increase its water exposure over time as supporting an ESG-friendly profile, which should warrant a premium valuation.

Exhibit 17: WTRG has experienced meaningful relative multiple compression since its announced acquisition of privately held gas utility Peoples Gas
AWK & WTRG vs Water Utilities FY2 P/E (market-cap weighted)

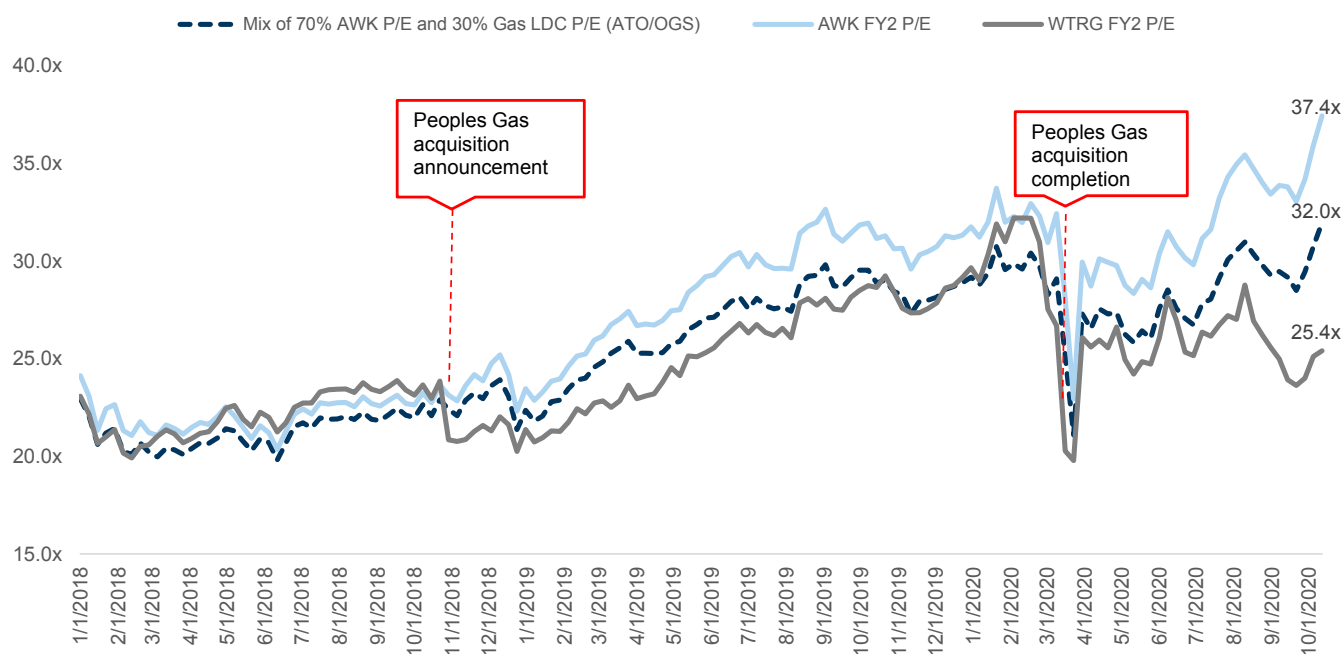


Source: FactSet, Goldman Sachs Global Investment Research

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Exhibit 18: We view WTRG's meaningful relative P/E discount as unwarranted based on its 70%/30% water/gas profile...

FY2 P/E for AWK, WTRG, and an illustrative performance of a 70%/30% water/gas utility

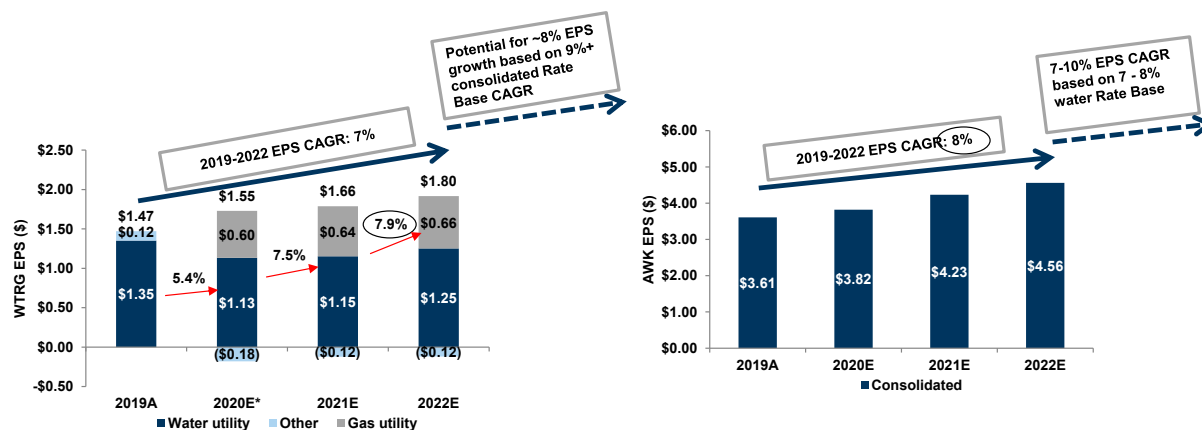


ATO/OGS chosen as illustrative gas utility comps based on company profile, including their status as the two largest gas LDCs by market cap

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 19: ...given we see WTRG's long-term EPS growth potential relatively in-line with that for AWK

WTRG/AWK EPS CAGR, 2019A-2022E; longer-term EPS/rate base growth potential



*Represents AWK's guidance through 2024, with another 1-2% EPS growth contribution expected from its market-based segment. WTRG rate base growth CAGR based on GS estimates.

Source: Company data, Goldman Sachs Global Investment Research

Applying a premium to water segment; upgrade to Buy (add to Conviction List)

Our 2020-2022 EPS estimates remain largely unchanged at \$1.55/\$1.66/\$1.80 – with timing of equity/debt financing the driver of the 2021 estimate from \$1.65

prior - implying a 7% CAGR from 2019A-2022E, along with similar dividend growth during the period. Our 2021 EPS adjustmentWe believe WTRG could achieve a higher growth rate beyond 2022 and closer to its ~9% blended rate base growth, given the more near-term lag from equity financing for the pending DELCORA municipal acquisition, as well as earning on the added rate base.

We raise our 12-month price target to \$51 (from \$45 prior) based on a SOTP approach, with 35x/22x P/E applied to our 2021 water/gas utility EPS estimates, respectively. We now apply a 5x premium to our base water P/E multiple of 30x to highlight the company's focus on further increasing its water utility exposure that should elevate its ESG-friendly profile, as well as its scarcity premium as one of two large-cap, publicly traded water utilities. Our valuation reflects a 30.6x blended P/E, below our AWK target multiple of 37x, with the relative discount still warranted given WTRG's water/gas business mix. Our new target reflects a 24% total return versus 13% for Regulated Utilities.

Downside risks to our call include: 1) PA regulation turns less constructive, which impacts earnings growth potential given the bulk of WTRG's earnings are derived from the state's water/gas operations, 2) the proposed DELCORA municipal water system acquisition fails to receive necessary approvals for completion, which could impact longer-term water rate base growth outlook barring replacement with other municipal acquisitions, and 3) longer-term growth concerns about the gas utility segment further compresses WTRG's valuation, both on an absolute basis and relative to pure-play water utilities.

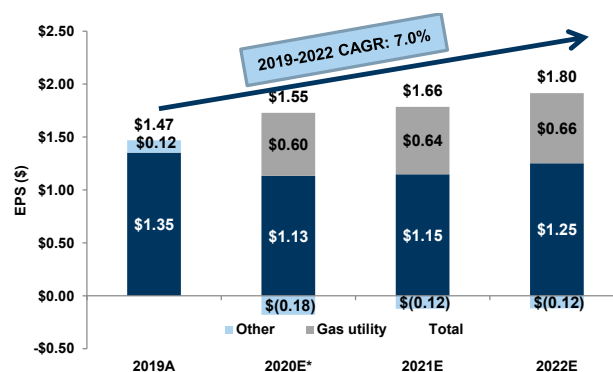
Exhibit 20: Our EPS estimates remain largely in line with consensus through 2022...

GSe vs Consensus

	EPS Estimates		% Difference vs Consensus
	GSe	Consensus	
2019A	\$1.47	\$1.47	0%
2020E	\$1.55	\$1.56	-1%
2021E	\$1.66	\$1.66	0%
2022E	\$1.80	\$1.80	0%

Exhibit 21: ...reflecting a robust 7% EPS CAGR through 2022

EPS 2019A-2022E



Source: FactSet, Goldman Sachs Global Investment Research

*2020 incorporates full-year of Peoples Gas earnings, comparable versus adjusted proforma company guidance. Segment EPS may not add up to consolidated EPS due to rounding.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 22: Our SOTP-based \$51 price target reflects a 25% total return potential

WTRG SOTP Valuation

VALUATION

Water utility EPS 2021	1.15
Water utility multiple	30.00x
Assumed premium	5.00x
Adjusted P/E	35.0x

Water utility valuation	40.31
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Gas utility EPS 2021	0.64
Gas utility multiple	20.00x
Assumed premium	2.00x
Adjusted P/E	22.0x

Gas utility valuation	13.99
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Valuation - Other	(0.12)
2020 Blended multiple	30.37x

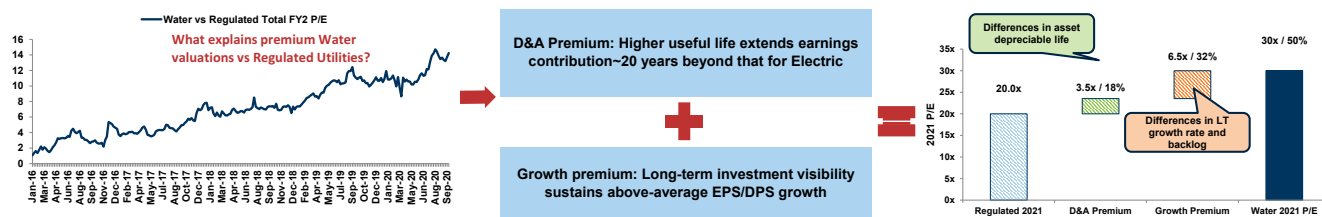
Other valuation	(3.74)
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Total valuation	51.00
------------------------	--------------

Current price per share	\$41.85
Return potential	21.86%
Dividend yield	2.24%

Total return potential	24%
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Source: Goldman Sachs Global Investment Research

Exhibit 23: Longer useful life and long-term investment visibility largely justify premium water base P/E multiple vs. electric/gas

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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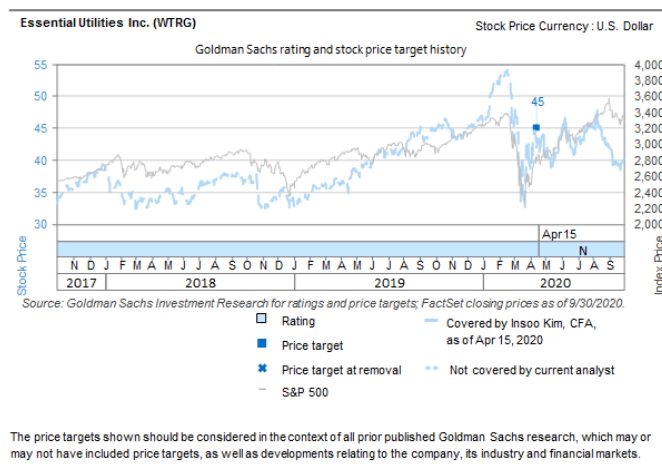
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